

Investment and Spending Policy

Habitat for Humanity of Catawba Valley

Approved: October 24, 2022

Article I – General Provisions

Section A

Purpose

In addition to its annual operating funds, Habitat for Humanity of Catawba Valley (“Habitat”) maintains investment assets that are intended to be used to provide for the long-term financial health of the organization, and not utilized for Habitat’s day-to-day operations except as provided in this ISPS (“Endowment Fund”). The purpose of this Investment and Spending Policy Statement (“ISPS”) is to assist Habitat's Finance Committee (the “Finance Committee”) in effectively monitoring, evaluating, and making recommendations to Habitat’s Board of Directors (the “Board”) regarding the Endowment Fund. This ISPS shall be reviewed periodically and revised if necessary, so that it adequately reflects circumstances and changes related to Habitat’s Endowment Fund and other assets.

Section B

Financial and Investment Objectives

- i. Habitat’s financial objective for the Endowment Fund is to preserve and enhance its real (i.e., inflation adjusted) purchasing power, while providing a relatively stable and constant stream of earnings in line with program and operating needs.
- ii. Habitat’s primary investment objective for the Endowment Fund is generate an overall real return on the invested assets that meets or exceeds the spending rate, administrative charges, and the current rate of inflation. A secondary investment objective is to earn long-term returns that equal or exceed the median of returns earned by comparable endowment funds (if known) or earn at least 5% over the long term. For purposes of this ISPS, long-term performance will be measured as performance over any given five-year period.
- iii. Habitat also seeks to minimize risk given the expected and desired rate of return established by the Finance Committee and to control the costs of managing the Endowment Fund.
- iv. Finally, given the capital-intensive nature of Habitat’s operations, Habitat wishes to maintain the flexibility to use a portion of the Endowment Fund to provide short-term liquidity in support of annual programs, including specifically the acquisition of land and the cost of construction, where appropriate.

Section C
General Use and Management of Endowment Fund Assets

- i. Assets within the Endowment Fund will be allocated into the following two categories:
 - a. “Short Term Assets” – Assets maintained in highly liquid investments or instruments that are available to assist Habitat with short-term liquidity needs in support of its annual programs, but which are intended to be repaid to the Endowment Fund within a given fiscal year.
 - b. “Investment Assets” – Assets which are intended to be held for longer-term investment by Habitat, to generate Fund Income and Endowment Fund Growth.
- ii. The Board, upon the recommendation of the Finance Committee, will set the target allocation of the Endowment Fund between Short Term Assets and Investment Assets on an annual basis. In the absence of action by the Board, Habitat’s Treasurer shall allocate \$500,000 to Short Term Assets, and the balance of the Endowment Fund will be classified as Investment Assets.

Article II – Use of Endowment Fund Assets and Income

Section A
Spending Policy

- i. It is the responsibility of the Board to annually review the financial performance of Investment Assets and establish effective spending rates for the upcoming fiscal year. The Finance Committee will provide the Board with such information as it may require to set the spending rate for the coming fiscal year, including a recommendation as to the spending rate. The spending rates will relate to the long-term investment returns of the Endowment Fund while taking into consideration the market value of the overall funds. Generally, the amount taken from the Endowment Fund for spending on Habitat’s regular programs will not exceed the greater of (1) the overall five-year rolling average total return on the Endowment Fund, and (2) 5% of the market value of the Investment Assets at the end of the immediately preceding calendar year. The Board may make an exception upon the recommendation of the Finance Committee and approval by two-thirds majority vote of the Board.
- ii. In setting the spending rates, the Board will conform to the standards of the Uniform Prudent Management of Institutional Funds Act as adopted by the State of North Carolina and other applicable law. For purposes of this ISPS, total return includes dividends, interest, and realized and unrealized capital gains, net of realized and unrealized losses.

Section B

Use of Available Funds

Funds available based on the spending rates established by the Board will be applied to the following uses, not necessarily in priority order:

1. Operating expenses
2. Capital and property expenditures
3. Debt retirement
4. Assurance of future donor and other support through effective long-range planning and enhancement of the Endowment Fund, and
5. Other programs, if and as determined by the Board

Article III – Investment Guidelines, Principles, and Policy

Section A

General Provisions

- i. **Time Horizon:** The investment guidelines are based on an investment horizon of greater than five years. Similarly, the strategic asset allocation of Investment Assets is based on a long-term perspective.
- ii. **Liquidity:** Short term liquidity requirements may be met from specific investments set aside to meet liquidity needs as well as from the total return on the Endowment Fund.
- iii. **Risk Tolerance:** In light of the uncertainties and complexities of contemporary investment markets, the Finance Committee recognizes and acknowledges that risk must be assumed to provide an opportunity to achieve the longer-term objectives. In establishing the risk tolerances of the ISPS, the ability to withstand short and intermediate term variability is considered. Specifically, Habitat's current financial condition and other factors suggest collectively that interim fluctuations in market value and rates of return may be tolerated to achieve the long term "total return" objectives.

Section B

Asset Class Definitions

- i. **Long Term Asset Allocation:** To achieve Habitat's investment objectives, Investment Assets should be categorized into and allocated among the following asset classes:
 - a. **Cash and Cash Equivalents:** Cash and cash equivalents include checking and savings accounts, money market accounts, and certificates of deposit. The purpose of holding cash and cash equivalents is to provide liquidity at a very low risk of loss.
 - b. **Stocks / Equity Investments:** Stocks / equity investments are equity investments in domestic and international companies (including companies in developing markets), and include individual stocks, stock mutual funds, and exchange traded funds. The purpose of these investments is to provide appreciation of both principal and current income at

a rate in excess of inflation. It is recognized that pursuit of this objective could entail the assumption of significant price variability.

- c. **Bonds / Fixed-Income Investments:** Bonds and fixed-income investments typically represent debt issued by companies or governments but may also include bond mutual funds and bond exchange traded funds.
 - d. **Alternative Investments:** Alternative investments include investments in commodities, real estate (including real estate investment trusts), private equity, venture capital, and master limited partnerships (MLPs).
 - e. **Other Investments:** Other investments include hybrid securities, options, and other derivative securities.
- ii. Investments should be diversified both by asset class and within asset classes. The purpose of diversification is to provide reasonable assurance that no single security or class of securities will have a disproportionate impact on the Invested Assets' total results.
 - iii. The allocation mix between asset classes identified above will be determined by the Finance Committee, and will be consistent with and conform to the financial and investment objectives and other guidance in this ISPS .

Section C

General Investment Principals

- i. Investments shall be made solely in the best interests of Habitat.
- ii. The Endowment Fund shall be managed under principles consistent within the statutes of the State of North Carolina (including the Prudent Investor Rule).
- iii. The Finance Committee has the flexibility to choose investments or to employ an asset manager for any part of the Endowment Fund in order to meet Habitat's objectives.

Section D

Asset Allocation

- i. Short Term Assets must be maintained as cash or cash equivalents so that the assets are immediately available to meet Habitat's liquidity needs. However, to the greatest extent practical, Short Term Assets should be employed productively by investment in short term cash equivalents to provide safety, liquidity, and return.
- ii. Investment Assets should be allocated among the following asset classes within the ranges indicated:

Asset Allocation Overview – Investment Assets

Asset Class	Lower Limit	Strategic Target	Upper Limit
Cash	0%	0%	10%
Stocks / Equity Investments	50%	65%	75%
Bonds / Fixed Income	20%	30%	50%
Alternative	0%	5%	10%
Other	0%	0%	5%

- iii. **Rebalancing:** An asset class is within an acceptable range if the current allocation is within the lower and upper limits as stated above. The necessary cash inflows/outflows will be deployed in a manner consistent with the strategic asset allocation. The Finance Committee will review and rebalance the allocation of the Investment Assets on a quarterly basis, or ensure that any external manager does so.

Article IV - Management Guidelines

Every external manager selected to manage the Invested Assets must adhere to the following guidelines. Except under unusual circumstances, all transactions should be entered into on the basis of best execution, which means best realized net price. Notwithstanding the above, commissions or competitive asset fees may be designated for payment of services rendered to the Fund in connection with its management.

Article V - Responsibilities

Section A

Board of Directors

The Board has delegated advisory responsibility for management of the Endowment Fund to the Finance Committee. The Board will receive routine reports and recommendations from the Finance Committee regarding investment decisions, withdrawals, additions, and performance. The Board retains its fiduciary responsibility over Habitat assets and the delegation of duty does not transfer the responsibility of board oversight.

Section B

Finance Committee

The Specific duties as it relates to investments of Habitat funds include:

- Selecting the mix of fund investments, etc. and/or selection of an asset manager
- Evaluating any invested fund, account, or asset manager on at least an annual basis
- Clearly communicating Habitat's policies and targets to the asset manager
- Monitoring the asset manager, fund performance, and costs at least annually

- Evaluate multiple portfolio management options at least every five years
- Establishing, reviewing, and maintaining the ISPS

Section C **Habitat Executive Director**

- The Executive Director will confer with the Treasurer, Finance Committee, and the Board as fiscal budget, spending and endowment withdrawal decisions are being made.

Section D **Finance Director**

On a day-to-day basis, Habitat's financial matters will be handled by the Habitat staff member designated by the Executive Director as "Finance Director." The Finance Director will handle most day-to-day communication between the Finance Committee and the investment firms or external managers retained. Transfers or withdrawals from the investment account(s) that are consistent with a budget approved by the Finance Committee and Board require no additional approvals. No withdrawals can be made above the approved annual fiscal budget amount without the approval of the Finance Committee and Board of Directors. The Finance Director will, with support from the Finance Committee, maintain a system to monitor, file and review statements from the investment brokerage firms or external manager. He or she should regularly keep the Finance Committee informed as to the status of portfolio investments and deposit accounts. He or she will communicate any material changes to the Finance Committee immediately.

Article VI - Performance Objectives and Monitoring of Results

- i. Specific performance objectives provide a quantitative basis to judge the effectiveness of an investment program and are appropriate to facilitate ongoing review and evaluation of the total Endowment Fund. Performance returns shall be evaluated annually to measure progress toward the attainment of longer-term goals. Portfolio performance is expected to match or outperform the relevant market indices or comparable endowments over intermediate and longer-term time periods. However, it is understood that there are likely to be time periods during which performance deviates and even underperforms benchmarks. Performance will be measured on a total return basis, net of all fees, over quarterly, annual, and rolling five-year periods.
- ii. The deployment of both individually managed portfolios and total Endowment Fund assets will be monitored for consistency of investment philosophy, return relative to objectives and investment risk as measured by asset concentration, exposure to extreme economic conditions, and market volatility. In addition, the Finance Committee will regularly review the performance and practices of external managers to confirm that its expectations for each manager are being met.
- iii. External managers will report to the Finance Committee at least quarterly, including such information as the Finance Committee may reasonably request. Habitat anticipates that such

information will include at least the following: total return net of all commissions and fees; additions to and withdrawals from the account; current holdings at cost and at market, and purchases and sales for the quarter or year. Regular written communications outlining the manager's evolving investment strategy are also expected, and managers should be available for periodic consultation with the Finance Committee. External managers are required to inform the Finance Committee of any material changes in firm ownership, organizational structure, key personnel, account structure (i.e., number and size of accounts) and investment philosophy.

- iv. The Finance Committee will provide a copy of this policy to any external investment manager and require that each external investment manager acknowledge their receipt and understanding of the policy in writing.